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TESTIMONY OF  
KIMBERLY LEATHLEY, RODNEY BOLING, BYRON KEEP, AND  
WILLIAM DOUBLEDAY

Witnesses for Bonneville Power Administration

**SUBJECT: New Resource (NR-02) Firm Power Rate; PF Exchange Program (PF-02) Rate; Residential Load (RL-02) Firm Power Rate; PF Exchange Subscription (PF-02) Rate; IOU Subscription Settlement Issues**

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5

6 **SUBJECT: NEW RESOURCE (NR-02) FIRM POWER RATE; PF EXCHANGE**  
7 **PROGRAM (PF-02) RATE; RESIDENTIAL LOAD (RL-02) FIRM POWER**  
8 **RATE; PF EXCHANGE SUBSCRIPTION (PF-02) RATE;**  
9 **IOU SUBSCRIPTION SETTLEMENT ISSUES**  
10

11 **Section 1: Introduction and Purpose of Testimony**

12 *Q. Please state your names and qualifications.*

13 A. My name is Kimberly Leathley and my qualifications are contained in WP-02-Q-BPA-42.

14 A. My name is Rodney Boling and my qualifications are contained in WP-02-Q-BPA-07.

15 A. My name is Byron Keep and my qualifications are contained in WP-02-Q-BPA-34.

16 A. My name is William Doubleday and my qualifications are contained in WP-02-Q-BPA-17.

17 *Q. What is the purpose of your testimony?*

18 A. The purpose of our testimony is to describe the development of the New Resource  
19 (NR-02) Firm Power Rate, the PF Exchange Program (PF-02) Rate, the Residential Load  
20 (RL-02) Firm Power Rate, and the PF Exchange Subscription (PF-02) Rate.

21 Our testimony will also discuss a number of ratemaking issues related to the proposed  
22 Subscription settlement with investor-owned utilities (IOUs), including a suggested  
23 increase in settlement benefits and the effect of the Cost Recovery Adjustment Clause  
24 (CRAC) on the determination of monetary benefits provided under the proposed  
25 settlement.  
26

1 *Q. How is your testimony organized?*

2 A. Our testimony is organized in six sections. Section 1 outlines the purpose of our  
3 testimony. Section 2 describes the NR-02 rate. Section 3 describes the PF Exchange  
4 Program rate. Section 4 describes the RL-02 rate. Section 5 describes the PF Exchange  
5 Subscription rate. Section 6 discusses a number of ratemaking issues related to the  
6 proposed Subscription settlement with regional IOUs.

7 **Section 2: New Resource (NR-02) Firm Power Rate**

8 *Q. Which power sales are governed by the NR-02 rate?*

9 A. The NR-02 rate applies to net requirements firm power purchases by IOUs that are not  
10 made under Bonneville Power Administration's (BPA's) proposed Subscription  
11 settlement for the IOUs. *See* Section 4, Residential Load (RL-02) Rate and Section 5,  
12 PF Exchange Subscription Rate, below. Net requirements firm power sales to IOUs in  
13 excess of the amounts permitted under the Subscription Strategy are also sold at the  
14 NR-02 rate. The NR-02 rate also applies to power sales to New Large Single Loads  
15 (NLSL) of public agency customers.

16 *Q. Please describe the development of the New Resource (NR-96) Firm Power Rate in BPA's*  
17 *1996 rate case.*

18 A. In BPA's 1996 rate case, BPA initially developed the NR-96 rate by allocating the costs  
19 of Residential Exchange Program resources and new resources to an assumed load of  
20 one average megawatt (aMW). One (1) aMW was assumed because a load greater than  
21 zero was needed to calculate a rate and no load had been forecasted under the NR-96 rate  
22 for the 1996 rate case test period. The NR-96 rate was also allocated costs resulting from  
23 the 7(b)(2) rate test trigger. BPA then concluded that the NR-96 rate as initially  
24 developed was uncompetitive. BPA noted that an NR-96 rate that recovered BPA's  
25 marginal cost of power, its cost of transmission, and some additional margin can assist in  
26 allowing BPA to recover its costs, including costs that would otherwise have to be borne

1 by other BPA customers. BPA noted that power would likely not be sold, and revenues  
2 wouldn't be available, under an uncompetitive NR-96 rate, which would only benefit  
3 BPA's competitors. BPA therefore set the NR-96 rate equal to the PF Preference (PF-96)  
4 rate at 100 percent load factor, concluding that this would not only recover BPA's  
5 marginal costs of power and its cost of transmission, but would provide an additional  
6 margin that would contribute to the recovery of BPA's other costs.

7 *Q. Does BPA propose to develop the NR-02 rate in the same manner as the final NR-96 rate?*

8 A. No. The development of the final NR-96 rate demonstrated a change from the manner in  
9 which BPA had previously developed the NR rate. Prior to 1996, BPA developed the  
10 NR-96 rate as initially described above. BPA is again developing the NR rate in this  
11 manner. *See* Documentation for Wholesale Power Rate Development Study,  
12 WP-02-E-BPA-05A, Section 2.3, Table RDS 52. This is appropriate because BPA's  
13 proposed rates are anticipated to be below market and BPA's inventory is projected to be  
14 completely sold. The cost basis for serving IOU net requirements and NLSL loads is the  
15 cost of Residential Exchange Program resources and new resources. Absent  
16 circumstances that make the establishment of a separate rate for a separate IOU load or  
17 demand both necessary and appropriate (*see* Section 4, Residential Load (RL-02) Rate  
18 below), setting the NR-02 rate lower than its cost basis would be imprudent. Therefore,  
19 BPA is not lowering the NR-02 rate below its cost basis.

20 **Section 3. PF Exchange Program (PF-02) Rate**

21 *Q. Which power sales are governed by the PF-02 Exchange rates?*

22 A. BPA is proposing two PF Exchange rates in the current rate proceeding: (1) the PF  
23 Exchange Program rate; and (2) the PF Exchange Subscription rate. The PF Exchange  
24 Program rate applies to the traditional implementation of the Residential Exchange  
25 Program. The PF Exchange Subscription rate applies to in lieu sales to exchanging IOUs  
26

1 that participate in a settlement of the Residential Exchange Program as described in  
2 BPA's Subscription Strategy.

3 *Q. What is the Residential Exchange Program?*

4 A. The Pacific Northwest Electric Power Planning and Conservation Act (Northwest  
5 Power Act) created the Residential Exchange Program to provide residential and small  
6 farm customers of Pacific Northwest (regional) utilities a form of access to low-cost  
7 Federal power. Under the Northwest Power Act, the BPA Administrator "purchases"  
8 power from each participating utility at that utility's average system cost (ASC). The  
9 Administrator then offers, in exchange, to "sell" an equivalent amount of electric power  
10 at BPA's Priority Firm (PF) Exchange power rate. The amount of power purchased and  
11 sold equals the qualifying residential and small farm loads of each participating utility.  
12 The Northwest Power Act requires that the net benefits of the program be passed on  
13 directly to the residential and small farm customers of the participating utilities.

14 *Q. Please describe the proposed PF Exchange rates.*

15 A. The PF Exchange Program rate applies to the traditional implementation of the  
16 Residential Exchange Program. This rate is compared with the exchanging utility's ASC  
17 and the difference is multiplied by the utility's eligible residential load to determine  
18 monetary benefits paid to the utility by BPA. This rate also applies to BPA's actual  
19 power sales to exchanging utilities under traditional "in lieu" transactions. In addition to,  
20 or in place of, the payment of monetary benefits under the Residential Exchange  
21 Program, BPA can, in certain circumstances, make actual power sales to the exchanging  
22 utility. In lieu of purchasing power from the utility at the utility's ASC, BPA may  
23 purchase power from an alternative source (an "in lieu resource") if the cost of the  
24 acquisition is less than the utility's ASC. In the event BPA purchases power from a  
25 source less costly than the utility's ASC, the utility may receive actual power from BPA  
26 in the amount of the in lieu purchase at the PF Exchange Program rate.

1 The PF Exchange Subscription rate applies to in lieu sales to exchanging IOUs  
2 that participate in a settlement of the Residential Exchange Program as described in  
3 BPA's Subscription Strategy. BPA's Subscription Strategy states:

4 *BPA's strategy is that IOUs may agree to a settlement of the*  
5 *Residential Exchange Program in which they would be able to*  
6 *purchase a specified amount of power under Subscription for*  
7 *their residential and small farm customers at a rate*  
8 *approximately equivalent to the PF Preference rate. BPA*  
9 *expects that the statutory mechanism for providing such sales*  
*will be a contract under either section 5(b) or section 5(c) of*  
*the Northwest Power Act. BPA will determine in subsequent*  
*discussions which mechanism will be employed.*

10 The reference to power sales under section 5(c) of the Northwest Power Act is a  
11 reference to in lieu transactions between BPA and the IOUs. Under the Subscription  
12 Strategy, the actual power deliveries for these sales will be in equal hourly amounts over  
13 the contract period. Because BPA has not yet determined whether Subscription  
14 settlement power sales to the IOUs will be pursuant to section 5(b) (net requirements  
15 sales) or section 5(c) (in lieu sales), BPA must develop rates that apply to each  
16 alternative. In the current rate case, BPA is proposing that the rate for in lieu power sales  
17 under Subscription will be the PF Exchange Subscription rate. This rate is discussed in  
18 more detail in section 5 below.

19 *Q. Please describe the development of the PF Exchange Program rate.*

20 *A.* The proposed PF Exchange Program rate is established at a posted level for the five-year  
21 rate period. The PF Exchange Program rate is not "stepped" in three- and two-year  
22 increments. Three- and two-year rates were developed for the PF Preference rate in order  
23 to make possible contract power purchases of different terms in order that BPA's power  
24 sales did not all expire at the same time. *See Burns, et al., WP-02-E-BPA-08.* This  
25 reasoning does not apply to the implementation of the Residential Exchange Program,  
26 where utilities participate in a monetary payment program. In addition, the ASCs of

1 utilities participating in the Residential Exchange Program are not stepped in this manner,  
2 so use of a single rate provides consistency over the rate period.

3 The PF Exchange Program rate demand charge is the same as the PF Preference rate  
4 demand charge. The PF Exchange Program rate energy charges are seasonally  
5 differentiated identically to the PF Preference rate energy charges. However, because  
6 reliable diurnal residential load data for exchanging utilities is not available to BPA, the  
7 PF Exchange Program rate energy charges are not diurnally differentiated but instead are  
8 established as an average energy rate based on the PF Preference rate billing determinants.  
9 The PF Exchange Program rate includes a charge for Load Variance. A charge for Load  
10 Regulation or its successors, as established by BPA's Transmission Business Line (TBL),  
11 and the Network Integration (NT) rate or its successors for transmission service, also as  
12 established by TBL, are forecasted and included in the initial proposed PF Exchange  
13 Program rate. The actual Load Regulation charge and NT rate, as established by the TBL,  
14 will be used in determining the PF Exchange Program rate during the rate period. In the  
15 event that the TBL's transmission rates change significantly from current rate design, BPA  
16 will evaluate whether the applicable transmission rates and charges are still appropriate.  
17 Finally, the PF Exchange Program rate is subject to adjustment pursuant to the  
18 Section 7(b)(2) rate test. The Section 7(b)(2) rate test is addressed in the testimony of  
19 Kaptur, *et al.*, WP-02-E-BPA-34.

20 *Q. Why do you propose to include a charge for Load Variance in the PF Exchange Program*  
21 *rate?*

22 *A.* BPA views the inclusion of a Load Variance charge as necessary to achieve an "apples to  
23 apples" comparability between PF and ASC. That is, all utilities must acquire or contract  
24 for resources for Load Variance and such costs are included in every utility's revenue  
25 requirement and, therefore, ASC. If such costs are included in ASC but excluded from  
26 the PF Exchange Program rate, exchanging utilities would receive excessive benefits.

1 Also, this service is a basic component of BPA's PF Preference rate, which governs  
2 preference customers' purchases of Federal power.

3 *Q. Why do you propose to include a charge for Load Regulation and a charge for*  
4 *transmission service under the NT rate in the PF Exchange Program rate?*

5 A. With respect to Load Regulation, BPA also views including this charge, as developed and  
6 revised by BPA's TBL, as necessary to achieve an "apples to apples" comparability  
7 between PF and ASC. Again, all utilities must acquire or contract for Load Regulation  
8 and the costs of such are included in every utility's revenue requirement and, therefore,  
9 ASC. If such costs are included in ASC but excluded from the PF Exchange Program  
10 rate, exchanging utilities would receive excessive benefits.

11 Similarly, each utility must have enough transmission capability to handle retail  
12 load swings and the costs of such capability are included in its ASC. BPA's NT  
13 transmission rate, which is developed by BPA's TBL, is currently designed to provide  
14 complete transmission service required to serve a utility's retail loads and only applies to  
15 the actual loads that occur. This is consistent with the Residential Exchange load, which  
16 is also based on actual retail loads rather than contract demand. The Point-to-Point rate,  
17 by comparison, is based on contract demand and includes the ability to reassign unused  
18 demand rights. Residential Purchase and Sale Agreements (RPSA) have not been based  
19 on contract demand and have not included such assignable rights. For this reason the  
20 actual NT rate or its successor, as established by the TBL, is added to the PF Exchange  
21 Program rate. This is consistent with the way the PF Exchange rate was calculated in  
22 1996.

23 *Q. Does the Conservation and Renewables Discount (C&RD) apply to the PF Exchange*  
24 *Program rate?*

25 A. No. The C&RD does not apply to the PF Exchange Program rate. The PF Exchange  
26 Program rate is compared with exchanging utilities' ASCs in the calculation of



1 Residential Exchange Program benefits paid by BPA to exchanging utilities. This  
2 calculation of benefits assumes similar cost components for both the PF Exchange  
3 Program rate and the exchanging utilities' ASCs. Both have most of the costs of  
4 providing a power product to residential and small farm customers, including the costs of  
5 conventional programmatic conservation. However, BPA's C&RD is not a resource  
6 acquisition conservation program and there are no analogous costs in the exchanging  
7 utilities' ASCs. *See* Esvelt, *et al.*, WP-02-E-BPA-33. Therefore, costs associated with  
8 the C&RD are not added to the calculation of the PF Exchange Program rate.

9 In any event, had BPA added C&RD costs to the PF Exchange Program rate and  
10 made the C&RD available under the PF Exchange Program rate, the Residential  
11 Exchange Program benefits paid by BPA to the exchanging utilities would not change.  
12 The PF Exchange Program rate would have been 0.5 mill higher and the C&RD would  
13 have removed 0.5 mill from that higher rate before calculation of Residential Exchange  
14 Program benefits.

15 **Section 4: Residential Load (RL-02) Firm Power Rate**

16 *Q. Which power sales are governed by the RL-02 rate?*

17 A. BPA proposes to establish two rates for net requirements power sales to the IOUs. One rate  
18 is the New Resources (NR-02) rate. The development and design of this rate was addressed  
19 in section 2 above. BPA also proposes to establish the Residential Load (RL-02) rate. This  
20 rate applies to net requirements sales, under section 5(b) of the Northwest Power Act, to  
21 IOUs that participate in a settlement of the Residential Exchange Program as described in  
22 BPA's Subscription Strategy. The Subscription Strategy's reference to power sales under  
23 section 5(c) of the Northwest Power Act is a reference to in lieu transactions between BPA  
24 and the IOUs which will be governed by the PF Exchange Subscription rate as discussed in  
25 section 5 below.

1           The proposed RL-02 rate is established at a posted level for the five-year rate period.  
2           The RL-02 rate is not “stepped” in three- and two-year increments. Three- and two-year  
3           rates were developed for the PF Preference rate in order to make possible contract power  
4           purchases of different terms in order that BPA’s power sales did not all expire at the same  
5           time. *See Burns, et al.*, WP-02-E-BPA-08. This reasoning does not apply to the  
6           implementation of the proposed Subscription settlement of the Residential Exchange  
7           Program, where purchases are only available for 5-year or 10-year terms.

8   *Q. Why is BPA proposing to establish the RL-02 rate?*

9   A. As discussed in greater detail below, BPA believes that current circumstances make the  
10       establishment of a separate rate for a separate IOU load or demand both necessary and  
11       appropriate. BPA counsel has advised that IOUs have the right to make net requirements  
12       power purchases from BPA. BPA counsel has also advised that IOUs have the right to  
13       participate in the Residential Exchange Program. In its Subscription Strategy, as noted  
14       above, BPA concluded that net requirements power sales could be a component of a  
15       settlement of the Residential Exchange Program with the IOUs.

16   *Q. How does a settlement of the Residential Exchange Program relate to the development of*  
17       *the RL rate?*

18   A. As noted above, BPA believes that current circumstances make the establishment of a  
19       separate rate for a specified separate IOU load or demand both necessary and appropriate.  
20       These circumstances involve, in part, the Residential Exchange Program. The Residential  
21       Exchange Program has been in existence since shortly after enactment of the Northwest  
22       Power Act. BPA has implemented the program for approximately 18 years. During that  
23       time, BPA has learned what is required to implement the program and the costs and benefits  
24       of implementing the program. For example, BPA must negotiate RPSAs with exchanging  
25       utilities. These negotiations are contentious, lengthy and demanding of the agency’s and  
26

1 customers' resources. Disputes regarding implementation of the RPSAs and the litigation of  
2 such disputes require additional resources to resolve.

3 In addition, BPA establishes an ASC Methodology, which is used to calculate the  
4 ASCs of exchanging utilities. The administrative establishment or revision of the  
5 ASC Methodology is extremely contentious. Revision of the ASC Methodology in 1984 led  
6 to extensive disagreements and litigation among BPA customers and other interested parties  
7 in the region. This process and litigation proved expensive and taxing for all parties.

8 In implementing the Residential Exchange Program, BPA must also review ASC  
9 filings made by the exchanging utilities. The utilities' ASC filings can be great in number  
10 and extremely technical. BPA's review of the ASC filings demands the dedication of  
11 numerous BPA employees or contract employees, or both. BPA's ASC reports are then  
12 filed by the IOUs with Federal Energy Regulatory Commission (FERC) for review. These  
13 reviews are also contentious and demand the expenditure of BPA's, the utilities', and  
14 interested parties' resources. The exchanging utilities can also appeal FERC's decisions to  
15 the United States Court of Appeals for the Ninth Circuit. These reviews are also contentious  
16 and demand the expenditure of BPA's, the utilities', and interested parties' resources.

17 In addition, the determination of exchange benefits, as noted previously, is based in  
18 part on the level of the applicable PF Exchange rate. If the PF Exchange rate is low,  
19 benefits are increased. If the PF Exchange rate is high, benefits are reduced. This leads to  
20 additional contentiousness in BPA's rate hearings. BPA's rates are reviewed by FERC for  
21 confirmation and approval and may be appealed to the United States Court of Appeals for  
22 the Ninth Circuit. These reviews are also contentious and demand the expenditure of  
23 BPA's, the utilities', and interested parties' resources.

24 *Q. What have BPA and exchanging utilities done in light of these difficulties?*

25 *A. Beginning in 1981, BPA and exchanging utilities executed RPSAs for 20-year terms.*  
26 *Between 1981 and today, all of these RPSAs have been settled except for one, which is*

1 between BPA and a utility in deemer status. (Deemer status is where a utility sets its ASC  
2 equal to BPA's PF Exchange rate and does not receive positive benefits but accrues a  
3 negative balance that must be worked off before resuming the receipt of positive benefits.)  
4 See Boling and Doubleday, WP-02-E-BPA-30. This extremely large number of Residential  
5 Exchange settlements reflects the nature and benefits of such settlements. Parties are able to  
6 avoid the contentiousness of the myriad Residential Exchange issues, thereby saving  
7 significant administrative and legal expenses. Parties receive known benefits instead of  
8 guessing future benefits due to changes in the ASC Methodology, the determination of ASC  
9 reports, and the development of wholesale power rates. This enables parties to engage in  
10 better financial planning.

11 *Q. Please describe how these circumstances support the development of the RL-02 rate.*

12 *A. The RL-02 rate applies only to net requirements sales to IOUs where the IOUs agree to a*  
13 *settlement of the Residential Exchange Program. As noted in BPA's Subscription Strategy:*

14 *In subscription, BPA proposes a settlement in which residential*  
15 *and small farm loads of the IOUs will be assured access to the*  
16 *equivalent of 1,800 aMW of federal power for the 2002-2006 period.*  
17 *Of this amount, at least 1,000 aMW will be met with actual power*  
18 *deliveries, depending on which approach is most cost-effective for*  
19 *BPA.*

20 While BPA proposes to offer a settlement based on the equivalent of 1,800 aMW of  
21 Federal power, the residential and small farm loads of the IOUs that will be eligible for  
22 participation in the Residential Exchange after 2001 total approximately 4,500 aMW. Thus,  
23 under the proposed settlement, the IOUs are foregoing their rights to exchange their total  
24 residential and small farm loads for the receipt of the equivalent of 1,800 aMW of Federal  
25 power, a much smaller amount than their total exchangeable loads.

26 In addition, BPA does not know whether the IOUs will continue the traditional  
Residential Exchange Program or will choose to participate in a settlement of the

1 Residential Exchange Program through Subscription. BPA has therefore developed rates  
2 that will apply under each scenario.

3 *Q. Please describe the development of the RL-02 rate.*

4 A. In the development of rates that apply under the Subscription scenario, the RL-02 rate was  
5 established at a level that, in conjunction with BPA's other firm power rates, recovers  
6 BPA's costs. A detailed discussion of BPA's calculation of Subscription rates is contained  
7 in the testimony of Doubleday, *et al.*, WP-02-E-BPA-18. BPA proposes to establish two  
8 rates for net requirements power sales to the IOUs. One rate is the New Resources (NR-02)  
9 rate. The development and design of this rate was addressed in section 2 above. BPA also  
10 proposes to establish the Residential Load (RL-02) rate. This rate applies to net  
11 requirements sales, under section 5(b) of the Northwest Power Act, to IOUs that participate  
12 in a settlement of the Residential Exchange Program as described in BPA's Subscription  
13 Strategy.

14 In developing the RL-02 rate BPA first conducts a Rate Design Step, which  
15 implements BPA's rate directives by allocating the costs of the resource pools to the PF, IP,  
16 and NR rate pools. In this step, BPA assumes that BPA makes a 1,000 aMW flat power sale  
17 at the FPS rate (set equal to the estimated PF Preference rate). This assumption is made  
18 because BPA is uncertain to whom its power will be sold. For example, if the IOUs accept  
19 the Subscription settlement proposal, they would receive 1,000 aMW of power. On the  
20 other hand, if the IOUs forego the Subscription settlement proposal, BPA would likely  
21 market the 1,000 aMW of power to other purchasers under the FPS-96 rate. Consistent with  
22 BPA's Subscription Strategy, BPA expects that the rates for sales to the IOUs would be  
23 approximately equal to the level of the PF Preference rate. Therefore, the assumption of an  
24 FPS sale at a rate level equal to the PF Preference rate is a proper placeholder to reflect the  
25 possible sale of the 1,000 aMW. The Rate Design Step then establishes the NR-02 and  
26 PF Exchange Program rates.

1           The second step is the Subscription Step. This step takes the results of the Rate  
2           Design Step and adjusts them by the added credits and costs associated with implementing  
3           the Subscription Strategy. In the Subscription Step, BPA assumes that the 1,000 aMW is no  
4           longer an FPS sale, but rather a sale to the IOUs at either the RL-02 or the PF Exchange  
5           Subscription rate. The costs recovered by the FPS sale in the Rate Design Step are the same  
6           basic costs recovered by the RL/PF Exchange Subscription sale. This provides the  
7           foundation for establishment of the RL-02 rate.

8   *Q. Please describe additional circumstances supporting the development of the RL-02 rate.*

9   A. Additional support for the RL-02 rate is found in the manner in which Federal power is  
10       made available to BPA's customers. As noted previously, the Residential Exchange  
11       Program provides a monetary form of access to Federal power for regional utilities.  
12       In recent years, however, the benefits available to the residential consumers of IOUs from  
13       the Residential Exchange Program have decreased substantially from the benefits provided  
14       in earlier years. Because of the decline in these benefits, certain parties have argued that the  
15       residential consumers of the region's IOUs are being denied proper access to Federal power.  
16       Under Subscription, BPA has proposed a settlement of the Residential Exchange Program in  
17       which IOUs could purchase Federal power for a portion of their net requirements loads at  
18       competitive rates. BPA believes that providing the IOUs the ability to purchase a specified  
19       amount of power at competitive rates contributes to the widespread use of Federal power.

20           The establishment of the RL-02 rate is also consistent with regional discussions in  
21       the Comprehensive Review and in the development of BPA's Subscription Strategy. In the  
22       Comprehensive Review, the Steering Committee encouraged parties to continue settlement  
23       discussions and to explore other paths to ensure that residential and small farm loads receive  
24       an equitable share of the benefits of the Federal system. Comprehensive Review, Final  
25       Report at 14. The Comprehensive Review also noted the desire to make power sales to  
26       BPA's customers at cost. While the Final Report did not expressly state that all BPA rates

1 would be equal, some customer groups suggested that this was the basic intent. These  
2 positions were reflected in comments made by certain customer groups, including the IOUs  
3 and the direct service industries (DSIs) regarding their respective rates, during the  
4 Subscription process. In the Subscription Strategy, BPA acknowledged these parties'  
5 understandings, stating BPA's expectation that "[t]hese sales [to IOUs] will be at a rate  
6 approximately equal to the PF Preference rate, subject to establishment in BPA's rate case  
7 and consistent with BPA's rate directives." Subscription Strategy at 16.

8 **Section 5: PF Exchange Subscription (PF-02) Rate**

9 *Q. Which power sales are governed by the PF Exchange Subscription rate?*

10 A. The PF Exchange Program rate is available for the traditional implementation of the  
11 Residential Exchange Program, both for the calculation of monetary benefits and for the  
12 price that applies to in lieu power sales. *See* Section 3, PF Exchange Program Rate. The  
13 PF Exchange Subscription rate, however, applies only to in lieu power sales in specific  
14 settlement circumstances. The PF Exchange Subscription rate applies only where an IOU  
15 agrees to a settlement of the Residential Exchange Program as provided in BPA's  
16 Subscription Strategy. As noted previously, BPA's Subscription Strategy did not conclude  
17 whether power sales to the IOUs under Subscription would be made pursuant to section 5(b)  
18 or section 5(c) of the Northwest Power Act. BPA is proposing the RL-02 rate, discussed  
19 previously, to apply to Subscription sales to the IOUs if such sales are made pursuant to  
20 section 5(b) of the Northwest Power Act.

21 *Q. Please describe the development of the PF Exchange Subscription rate.*

22 A. In the development of rates that apply under the Subscription scenario, the RL-02 rate was  
23 established at a level that, in conjunction with BPA's other firm power rates, recovers  
24 BPA's costs. Because the RL-02 rate recovers BPA's costs in the Subscription scenario,  
25 that rate level would also recover BPA's costs if such sales were made as in lieu sales under  
26

1 section 5(c) of the Northwest Power Act at the PF Exchange Subscription rate. For this  
2 reason the PF Exchange Subscription rate is set equal to the RL-02 rate.

3 *Q. Why was it appropriate to develop the PF Exchange Subscription rate in this manner?*

4 A. The reasons that support the establishment of the RL-02 rate apply equally to the  
5 establishment of the PF Exchange Subscription rate. These reasons include the relative  
6 costs and benefits of the Residential Exchange Program, the value of previous settlements of  
7 participation in the Program, the foregoing of benefits for large residential loads in exchange  
8 for a smaller amount of Federal power, limited IOU access to the benefits of Federal power,  
9 promoting the widespread use of Federal power, and recognizing regional discussions  
10 regarding the rates that should apply to sales of Federal power after 2001.

11 *Q. Please provide further detail regarding the proposed PF Exchange Subscription rate.*

12 A. The proposed PF Exchange Subscription rate is established at a posted level for the  
13 five-year rate period. The PF Exchange Subscription rate is not “stepped” in three- and  
14 two-year increments. Three- and two-year rates were developed for the PF Preference rate  
15 in order to make possible contract power purchases of different terms in order that BPA’s  
16 power sales did not all expire at the same time. *See Burns, et al., WP-02-E-BPA-08.* This  
17 reasoning does not apply to the implementation of the proposed Subscription settlement of  
18 the Residential Exchange Program, where purchases are only available for 5-year or 10-year  
19 terms.

20 The PF Exchange Subscription rate demand charge is the same as the PF Preference  
21 rate demand charge. The PF Exchange Subscription rate energy charges are seasonally and  
22 diurnally differentiated identically to the PF Preference rate energy charges. The PF  
23 Exchange Subscription rate does not include a charge for Load Variance. This is because,  
24 under Subscription, sales to IOUs are flat and require no Load Variance charge, similar to  
25 block purchases of other customers. A charge for Load Regulation, as established by BPA’s  
26 TBL, and the NT rate or its successor for transmission service, as established by TBL, are



also not included in determining the PF Exchange Subscription rate. This is because, under Subscription, in lieu sales to IOUs are undelivered so such transmission charges and rates are not reflected. If actual Subscription power sales to IOUs are made, the IOUs will pay applicable transmission and ancillary service charges for the transmission of such power.

**Section 6: Investor-Owned Utility Subscription Settlement Issues**

*Q. Please describe the proposed settlement of the Residential Exchange Program with regional IOUs as provided in BPA's Subscription Strategy.*

A. As noted previously, BPA's Subscription Strategy proposes a settlement of the Residential Exchange Program with regional IOUs in which residential and small farm loads of the IOUs will be assured access to the equivalent of 1,800 aMW of Federal power for the FY 2002-2006 period (and 2,200 aMW for the FY 2007-2011 period). Of this amount, at least 1,000 aMW will be met with actual power deliveries. The remaining 800 aMW will be provided in the form of either power or monetary benefits depending on which approach is most cost-effective for BPA. This determination, as well as the amount of power and monetary benefits offered to each IOU, will be made in a separate process. The monetary benefits will be based on the difference between the five-year flat block market price of power forecasted in the rate case and the rate used to make Subscription sales to the IOUs (the RL-02 or the PF Exchange Subscription rate).

*Q. Have any parties suggested increasing the amount of benefits provided under the proposed settlement from 1,800 aMW to 1,900 aMW?*

A. Yes. While some parties have suggested such an increase, BPA's Subscription Strategy accurately reflects BPA's current settlement proposal, which is 1,800 aMW. Any decision by BPA to change the amount of benefits offered in the proposed settlement will be made outside of the rate case. Parties to the rate case, however, may raise and discuss any issues regarding the potential effects of such an increase on BPA's rates.

1 Q. BPA is proposing a Cost Recovery Adjustment Clause (CRAC) for its 2002 rates. See  
2 Lovell, et al., WP-02-E-BPA-14. Does the CRAC affect the calculation of monetary  
3 benefits under the proposed IOU settlement?

4 A. Yes. The CRAC implements a surcharge to applicable rates in the event that the conditions  
5 for triggering the CRAC have been satisfied. The CRAC applies to the RL-02 and the PF  
6 Exchange Subscription rates, in addition to other rates. In the event that the CRAC triggers  
7 and the RL-02 rate and PF Exchange Subscription rate increase, the increased rates would  
8 be compared with BPA's five-year flat block market forecast to calculate monetary benefits  
9 to IOUs under the settlement. This is consistent with the fact that the rates for power sales  
10 under the settlement are subject to the CRAC and would increase in the event that the  
11 CRAC triggered.

12 Q. Does this conclude your testimony?

13 A. Yes.  
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